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March 28, 2016

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: John Naimo 
Auditor-Controller

SUBJECT: **DEPARTMENT OF HUMAN RESOURCES – FISCAL REVIEW PHASE I**

As part of our ongoing responsibility to ensure that County resources are safeguarded and that departments are complying with County fiscal policies and procedures, we are reviewing County department fiscal operations. We have completed the first phase of a review of the Department of Human Resources' (DHR or Department) fiscal operations, which includes areas such as budgetary performance, revolving funds, commitments, accounts payable, special revenue funds, and safeguarding cash and liquid assets. We anticipate completing the second phase covering other fiscal areas (e.g., payroll, etc.) during Fiscal Year 2016-17.

Summary of Findings

We noted that DHR generally experienced minimal budget-to-actual Net County Cost variance, managed special revenue funds appropriately, and safeguarded cash and liquid assets. However, DHR needs to improve compliance with County fiscal policies and procedures involving revolving funds, commitments, and accounts payable. For example, DHR used revolving funds to purchase items that should have been purchased using the formal procurement process. Most of the issues we identified are comparable to the results of our fiscal reviews at other County departments. DHR management indicated that they have taken corrective actions to address the issues we identified. The detailed findings and recommendations of our review are included in the attached report (Attachment I).

Review of Report

We discussed the results of our review with DHR management. They generally agreed with our findings and recommendations, and indicated that they will work to improve their fiscal operations. DHR's attached response (Attachment II) describes the corrective actions they have taken, or plan to take, to address the recommendations in our report.

We thank DHR management and staff for their cooperation and assistance during our review. If you have any questions, please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:PH:RS:ZP

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Lisa M. Garrett, Director of Personnel, Department of Human Resources
Audit Committee
Public Information Office

**DEPARTMENT OF HUMAN RESOURCES
FISCAL REVIEW PHASE I**

Background and Scope

The Department of Human Resources (DHR or Department) provides various personnel related services to County departments. Services include recruitment and exams, civil service representation, employee benefit administration, workforce planning, training, and performance management consultation. The Department's Fiscal Year (FY) 2013-14 budget was approximately \$66 million.

We completed a review of the Department's budgetary performance, revolving funds, commitments, accounts payable, special revenue funds, and safeguarding cash and liquid assets. Our review focused on evaluating DHR's internal controls and compliance with County fiscal policies and procedures.

Budgetary Performance

Budgets serve as financial plans that authorize and control the outflow and inflow of resources. Departments must work with the Chief Executive Office (CEO) to establish budgets based on the availability of resources and anticipated levels of service, continually monitor actual financial results, and make operating changes when necessary to adhere to budgets. We compared DHR's budget to their actual financial results for the three FYs ending June 30, 2014, and summarized the results below:

BUDGET-TO-ACTUAL FINANCIAL COMPARISON				
BUDGET CLASSIFICATION	BUDGET AMOUNT	ACTUAL AMOUNT	OVER (UNDER) BUDGET	% OVER (UNDER)
FISCAL YEAR 2013-14:				
EXPENDITURES	\$ 66,224,000	\$ 55,925,566	\$ (10,298,434)	(15.6%)
INTRAFUND TRANSFERS	40,329,000	34,109,941	(6,219,059)	(15.4%)
REVENUES	11,807,000	9,104,000	(2,703,000)	(22.9%)
NET COUNTY COST	14,088,000	12,711,625	(1,376,375)	(9.8%)
FISCAL YEAR 2012-13:				
EXPENDITURES	\$ 62,342,000	\$ 52,971,424	\$ (9,370,576)	(15.0%)
INTRAFUND TRANSFERS	39,786,000	32,481,632	(7,304,368)	(18.4%)
REVENUES	11,018,000	8,452,265	(2,565,735)	(23.3%)
NET COUNTY COST	11,538,000	12,037,527	499,527	4.3%
FISCAL YEAR 2011-12:				
EXPENDITURES	\$ 60,729,000	\$ 51,126,916	\$ (9,602,084)	(15.8%)
INTRAFUND TRANSFERS	39,497,000	31,906,859	(7,590,141)	(19.2%)
REVENUES	10,873,000	8,895,035	(1,977,965)	(18.2%)
NET COUNTY COST	10,359,000	10,325,022	(33,978)	(0.3%)

The Department experienced minimal budget-to-actual Net County Cost (NCC) variance over the three years (less than 10%). While the actual expenditures, intrafund transfers, and revenues were considerably less than the budgeted amounts (15% to 23%), total outflows and inflows were generally under budget by similar amounts which resulted in minimal NCC variance. The lower than budgeted expenditures were primarily related to salary and employee benefit savings due to position vacancies. In addition, lower intrafund transfers and revenues were attributable to unreimbursed personnel services provided to other departments (e.g., recruitment, exams, training, etc.).

The Department exceeded its budgeted NCC during FY 2012-13. This was largely due to DHR expecting increased revenue compared to prior years, while the actual revenue declined. DHR management indicated that the declining revenue resulted from larger than expected unreimbursed services provided to smaller client departments. It should be noted that revenue and intrafund transfer amounts are forecast months in advance of the FY, and have greater variability due to factors that at times are beyond the Department's control (e.g., changes in State funding commitments, reduced service requests from client departments, etc.). Expenditures in a service-based department like DHR are primarily attributable to salaries and employee benefits, and thus can be forecast with greater accuracy. As a result, DHR management should closely monitor actual revenues and intrafund transfers throughout the year, and make timely operating changes needed to adhere to budgeted NCC (e.g., reduce expenditures, maximize the provision of reimbursable services, etc.). DHR management should also work with the CEO to formally adjust their budgets based on actual experience and unforeseen events.

Recommendation

- 1. Department of Human Resources management closely monitor actual revenues and intrafund transfers throughout the year, and make timely operating changes needed to adhere to budgeted Net County Cost (e.g., reduce expenditures, maximize the provision of reimbursable services, etc.), including budget adjustments, when warranted.**

Revolving Funds

Revolving funds are fixed amounts of money held as cash or in checking accounts that are replenished when expended. County departments may establish revolving funds for several purposes, including purchasing minor goods and services, making change, and issuing refunds. Revolving funds should only be used to make purchases when it is not feasible to use the formal procurement process (e.g., purchase orders, online payments, etc.), such as when an emergency exists, a prepayment is required, or a purchasing advantage can be achieved (e.g., cost savings, etc.). DHR has a \$5,000 revolving fund (\$4,900 checking account and \$100 cash) that is regularly used to purchase goods and services. We reviewed ten of DHR's revolving fund purchases, and noted the following:

- **Inappropriate Purchases:** The Department should not have made seven (70%) of the purchases from the revolving fund, totaling \$2,500. DHR could have used the formal procurement process to purchase the items (e.g., paint, microwave oven, headphones, etc.). We also noted that one of the items purchased was a refrigerator that was available from a County agreement vendor for over 30% less.
- **Inconsistent Preapprovals:** DHR staff did not appropriately obtain preapprovals for three (30%) of the purchases, totaling \$600. Two purchases were approved after staff had purchased the items and one purchase did not have the required second approval.
- **Payment Issues:** Revolving fund payments over \$500 must have two signatures on checks. In addition, after payments are issued, supporting documents related to the purchase must be marked “paid” to prevent reuse. DHR issued a payment for one (10%) purchase, totaling \$900, without the second signature on the check. DHR also did not mark supporting documents “paid” for all ten purchases.

Departments must also reconcile revolving fund records to checking accounts and cash each month. Reconciliations must be reviewed and approved by supervisors, and any discrepancies must be resolved timely. We reviewed 13 of the monthly reconciliations completed by DHR, for its revolving fund and noted that ten (77%) reconciliations were not approved. We also noted that DHR is not resolving discrepancies timely. For example, the Department’s July 2014 revolving fund reconciliation identified five uncashed checks, totaling \$300, that were issued from four to ten years earlier.

Recommendations

Department of Human Resources management ensure:

2. **Revolving fund purchases are only made when it is not feasible to use the formal procurement process (e.g., emergencies, etc.).**
3. **Staff obtain appropriate approval before revolving fund purchases are made.**
4. **Revolving fund payments over \$500 have dual signatures on checks.**
5. **Revolving fund supporting documentation is marked “paid” to prevent reuse.**
6. **Supervisors review and approve revolving fund reconciliations, and resolve any discrepancies timely.**

Commitments and Accounts Payable

County departments establish encumbrances to reserve budgeted funds when ordering goods and services. At the end of each FY, encumbrances are carried forward to the next FY as commitments if the goods and services were not received. If the goods and services were received, but payments were not made, departments must establish accounts payable at year-end to recognize expenditures. Departments are required to review commitments and accounts payable to ensure they are accurate, and cancel any that are no longer necessary. Canceling commitments and accounts payable releases funding for future appropriation.

Commitments

DHR had 73 commitments at the beginning of FY 2014-15, totaling approximately \$2.3 million. We reviewed ten commitments and noted that DHR should not have established two (20%) of the commitments, totaling \$56,900. DHR should have established accounts payable for these services because they were received in the prior FY. We also reviewed ten payments charged against other commitments and similarly noted that accounts payable should have been established instead of commitments for four (40%) payments, totaling \$74,000. As a result, the Department's prior FY expenditures were understated and current FY expenditures were overstated. In addition, we noted that DHR should have cancelled one (10%) commitment, totaling \$19,500, because it was no longer needed (i.e., service contract had expired).

Accounts Payable

DHR had three accounts payable at the beginning of FY 2014-15, totaling \$53,500. We noted that DHR generally established these payables in accordance with County fiscal policies and procedures.

Recommendations

Department of Human Resources management:

- 7. Reinstruct staff on County Fiscal Manual requirements for establishing encumbrances, commitments, and accounts payable.**
- 8. Review commitments to ensure they are needed and cancel them if they are no longer required.**

Special Revenue Funds

DHR manages two special revenue funds involving employee benefits; the Health Care Self-Insurance Fund and the Flexible Benefit Plan Fund. The Health Care Self-Insurance Fund pools Anthem Blue Cross premiums and uses the funds to pay participant medical claims and other related costs (e.g., vision, pharmacy, etc.). The

Flexible Benefit Plan Fund receives participant payroll deductions for health and dependent care spending accounts, and processes reimbursements for qualified expenses.

We reviewed the Department's management and oversight of the special revenue funds and did not identify any material internal control weaknesses. However, we noted that the Flexible Benefit Plan Fund records indicate that approximately 2,000 uncashed reimbursement checks issued to plan participants, totaling \$450,000, have not been cashed from six months to ten years. The checks are void after six months. DHR management should work with County Counsel to identify an appropriate disposition for the uncashed checks (e.g., issue new checks, transfer money to the General Fund, etc.), and implement procedures for timely follow-up of uncashed checks.

Recommendation

- 9. Department of Human Resources management work with County Counsel to identify an appropriate disposition for the uncashed Flexible Benefit Plan Fund checks (e.g., issue new checks, transfer money to the General Fund, etc.), and implement procedures for timely follow-up of uncashed checks.**

Safeguarding Cash and Liquid Assets

We evaluated DHR's procedures for safeguarding cash and liquid assets (e.g., parking validations, bus tokens, etc.), and noted that they appropriately secured assets, only granted access to limited authorized employees, and maintained accurate and complete asset records. However, we noted that DHR does not perform semiannual inventories of safes, as required. We also noted that safes inappropriately contained funds that did not belong to the County (e.g., fundraising money, etc.) and non-negotiable items (e.g., expired parking validations, unused lockboxes, etc.). DHR management should perform semiannual inventories of safes and purge any inappropriate items.

Recommendation

- 10. Department of Human Resources management perform semiannual inventories of safes and purge any inappropriate items.**



LISA M. GARRETT
DIRECTOR OF PERSONNEL

**COUNTY OF LOS ANGELES
DEPARTMENT OF HUMAN RESOURCES**

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March 17, 2016

To: John Naimo
Auditor-Controller

From: Lisa M. Garrett
Director of Personnel

Subject: **DEPARTMENT OF HUMAN RESOURCES – FISCAL REVIEW PHASE I**

This is in response to the Auditor-Controller's (A-C) recommendations resulting from your office's Department of Human Resources (DHR) Fiscal Review for the period of FY 2011-12 through FY 2013-14. DHR generally concurs with the A-C's recommendations and the following details our response to your office's recommendations:

Recommendation 1: Department of Human Resources management closely monitor actual revenues and intrafund transfers throughout the year, and make timely operating changes needed to adhere to budgeted Net County Cost (e.g., reduce expenditures, maximize the provision of reimbursable services, etc.), including budget adjustments, when warranted.

DHR Response to Recommendation 1: Agree and implemented.

DHR has been and will continue to closely monitor actual revenues and intrafund transfers throughout the year, and, if necessary, make operating adjustments to adhere to DHR's budgeted Net County Cost (NCC). DHR's closing NCC has been within the budgeted NCC in FY 2013-14 and FY 2014-15.

Recommendation 2: Revolving fund purchases are only made when it is not feasible to use the formal procurement process (e.g., emergencies, etc.).

DHR Response to Recommendation 2: Agree and implemented.

Effective July 2014, DHR has made concerted efforts to limit the usage of the revolving fund for purchases that are not feasible under the formal procurement process. DHR issued 52 revolving fund checks in FY 2013-14 and have reduced to 19 in FY 2014-15 and 16 in FY 2015-16, as of March 15, 2016.

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Recommendation 3: Staff obtain appropriate approval before revolving fund purchases are made.

DHR Response to Recommendation 3: Agree and implemented.

Effective December 2015, DHR has communicated to staff to properly obtain approvals prior to the usage of the revolving fund.

Recommendation 4: Revolving fund payments over \$500 have dual signatures on checks.

DHR Response to Recommendation 4: Agree and implemented.

In the audit samples, only 1 revolving fund check over \$500.00 did not meet the dual signatures requirement. Effective December 2015, DHR has stressed to staff that dual signatures are required on revolving fund checks over \$500.00 and has included language on the revolving checks stating the need for dual signatures for any amount greater than \$500.00.

Recommendation 5: Revolving fund supporting documentation is marked "paid" to prevent reuse.

DHR Response to Recommendation 5: Agree and implemented.

In December 2015, DHR procured "paid" block stamps and changed our practice to mark "paid" on supporting documentation since the fiscal review.

Recommendation 6: Supervisors review and approve revolving fund reconciliations, and resolve any discrepancies timely.

DHR Response to Recommendation 6: Agree and implemented.

Beginning January 2016, DHR revolving fund reconciliations have been reviewed and approved by supervisors.

Recommendation 7: Reinstruct staff on County Fiscal Manual requirements for establishing encumbrances, commitments, and accounts payables.

DHR Response to Recommendation 7: Agree and implemented.

In December 2015, DHR has provided staff with the relevant sections in the County Fiscal Manual to reinforce the establishment of encumbrances, commitments, and accounts payable. Additionally, DHR will enroll staff to the A-C year-end closing training this FY.

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Recommendation 8: Review commitments to ensure they are needed and cancel them if they are no longer required.

DHR Response to Recommendation 8: Agree and implemented.

DHR currently reviews commitments as requested by the A-C Accounting Division on an annual basis and will continuously monitor commitments for the need to have them stay open or canceled.

Recommendation 9: Department of Human Resources management work with County Counsel to identify an appropriate disposition for the uncashed Flexible Benefit Plan Fund checks (e.g., issue new checks, transfer money to the General Fund, etc.), and implement procedures for timely follow-up of uncashed checks.

DHR Response to Recommendation 9: Agree and will be implemented.

DHR concurs with this recommendation. DHR is currently working with the Third-Party Administrator (TPA) for the reissuance of voided checks and the establishment of procedures for timely reminders being sent to the payees on uncashed checks. DHR intends to amend existing contract with the TPA to include these processes. Additionally, DHR will be consulting with County Counsel to identify an appropriate disposition for uncashed checks.

Recommendation 10: Department of Human Resources management perform semiannual inventories of safes, and purge any inappropriate items.

DHR Response to Recommendation 10: Agree and implemented.

Effective January 2016, DHR began conducting semiannual inventory of safes. DHR will continue this practice and purge any inappropriate items as part of DHR's routine fiscal operations.

This review has assisted DHR to maintain effective and accurate fiscal operating practices. I sincerely thank your staff for their professionalism and recommendations. As indicated above, DHR has implemented nine out of ten recommended practices and taken measures to implement the remaining action item.

Should you have any questions, please contact me at (213) 974-2406 or Theresa Tran, Administrative Deputy at (213) 974-2515.

LMG:EP:TT:WL:tdb